

# US FOMC Meeting (11 - 12 June)

Staying the course: Fed foresees only one rate cut this year, projects slightly higher inflation

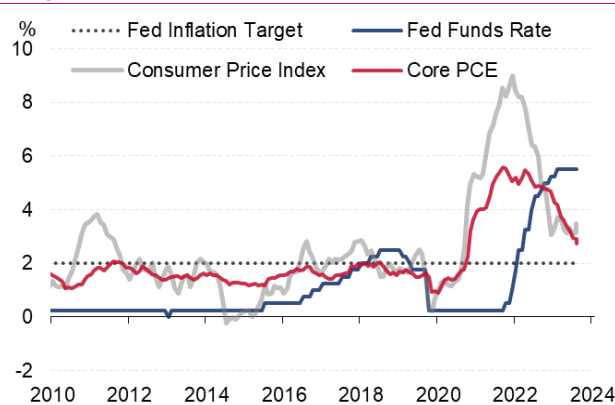
- In line with expectations**, the US Federal Open Market Committee (FOMC) unanimously decided to maintain its policy rate at 5.25%-5.50%, marking the seventh consecutive meeting without a change. However, it revised its inflation projections upward and reduced the likelihood of a rate cut to just one potential reduction in 2024.
- Fed speak**: The committee adopted a slightly dovish tone, adjusting its stance on inflation from "a lack of progress" to acknowledging "modest further progress" toward the 2.0% target. This shift was influenced by a surprising lower-than-expected 0.2% MoM core CPI reading just before the decision. As such, we reckon that further weakness in key data could increase the likelihood of the Fed implementing more than just one rate cut this year.
- Press conference**: Fed Chair Jerome Powell stated, "if the labour market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we are prepared to respond." Previously focused solely on the job market, Powell now also highlighted inflation. We believe inflation may continue to cool in the coming months as the pace of home price growth slows, while the labour market may continue to weaken despite the above consensus nonfarm payrolls print.
- Dot plot highlights**: The Fed projects a marginally higher PCE inflation rate of 2.6% and signals just one rate cut by the end of 2024, down from three projected in March. However, they maintained their optimistic growth forecast for the 2024-2026 period while projecting a higher unemployment rate for 2025 and 2026. Powell remained cautious despite the lower inflation print, emphasising that the data reflects only one month and underscoring that the Fed will continue to be guided by incoming data. The market now anticipates two rate cuts this year, based on CME Group 30-Day Fed Fund futures prices. Notably, the Fed has revised its long-run policy rate forecast upward to 2.8% from 2.6%.
- Fed policy outlook**: As leading indicators such as the household survey point to significant labour market softening—highlighting a shrinking labour force and increasing difficulty in finding full-time employment—we believe the US economy has reached a turning point. Both inflation and the job market may continue to weaken in the coming months. Consequently, the time for the Fed to ease monetary tightness is approaching, with **September as our forecast for the first rate cut**. However, this **may not signal the start of a rate-cutting cycle**, as the Fed is likely to **continue monitoring key data and may only implement another cut in December**.
- US Treasury outlook**: As we anticipate the Fed to cut rates twice this year, reducing the Fed funds rate to 4.75%-5.00%, the **10-year Treasury yield may approach the 3.95% level by year-end** as investors rush to lock in high yields.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.25% (-0.25%)	Euro Area	Fixed Rate	Jun-24
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
0.00% - 0.10% (+0.10%)	Japan	Overnight Call Rate	Mar-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

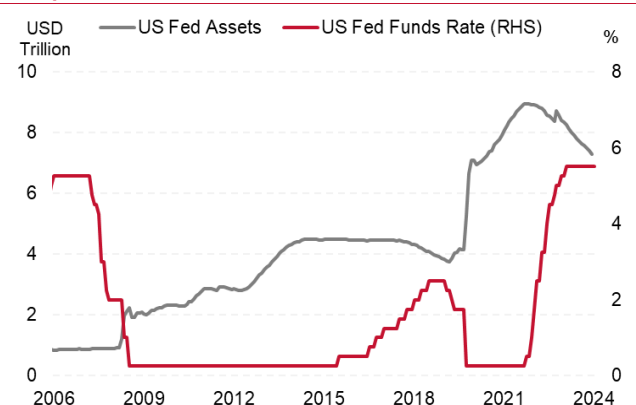
Source: Bloomberg, Kenanga Research

**Graph 1: Fed Fund Rate and Inflation Trends**



Source: Bloomberg, Kenanga Research

**Graph 2: Fed Balance Sheet Vs. Fed Funds Rate**



Source: Bloomberg, Kenanga Research

13 June 2024

**Table 2: US FOMC Tentative Meeting Schedule for 2024 / KIBB Outlook**

No.	Date		KIBB Research Outlook	Fed Funds Future**	Fed Decision
1st	30 and 31 Jan	<input checked="" type="checkbox"/>	No change	No change (97.9%)	No change
2nd	19 and 20 Mar*	<input checked="" type="checkbox"/>	No change	No change (99.0%)	No change
3rd	30 Apr and 1 May	<input checked="" type="checkbox"/>	No change	No change (99.0%)	No change
4th	11 and 12 Jun*	<input checked="" type="checkbox"/>	No change	No change (95.3%)	No change
5th	30 and 31 Jul	<input type="checkbox"/>	No change	No change (91.7%)	
6th	17 and 18 Sep*	<input type="checkbox"/>	25 bps cut	25 bps cut (56.7%)	
7th	6 and 7 Nov	<input type="checkbox"/>	No change	No change (50.6%)	
8th	17 and 18 Dec*	<input type="checkbox"/>	25 bps cut	25 bps cut (41.9%)	

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points

\*Meeting associated with a Summary of Economic Projections

\*\*CME Fed Rate Monitor: Based on CME Group 30-Day Fed fund futures prices (highest probability)

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